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Central Intelligence Agency

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SOUTH AFRICA: VULNERABILITY TO ECONOMIC SANCTIONS

Summary

In our judgment, the South African economy is reasonably well prepared to weather even comprehensive economic sanctions for several years. The country could meet its basic needs in food, clothing, housing, and medical care for an indefinite period, and continue to supply many of the perquisites of high white living standards. With some exceptions, stockpiles, spare capacity in existing industries, and flexibility in transferring labor and capital would see the economy through three or four years. We believe that the country has adequate strategic oil reserves to last at least 6 years, assuming that moderate conservation measures are implemented and a fourth coal-to-oil facility is built. Pretoria's experience and expertise in circumventing embargoes probably would allow it to stretch stockpiles of oil and many other key imports even further. [redacted] 25X1

Over the long haul, widespread bans on foreign loans and investment in South Africa probably would undermine Pretoria's efforts to diversify exports and achieve the 5 to 6 percent real annual output growth needed to avert rising black unemployment rates, which we believe already exceed 25 percent. An effective embargo of machinery and equipment sales to South Africa probably would cut growth severely since South Africa's small domestic market does not generate much local production of capital goods. [redacted] 25X1

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This paper was prepared by [redacted] Southern African Branch, Office of African and Latin American Analysis. Comments and queries may be directed to the Chief, Southern Africa Branch, [redacted]

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We believe that Pretoria would react to widespread economic sanctions by blocking financial outflows to conserve foreign exchange and by reducing economic ties to neighboring black states, causing those countries considerable economic turmoil. We do not expect that Pretoria would prohibit sales of strategic minerals to the West, except under extreme duress. Although we believe that the threat of economic sanctions has provided President Botha with an unspoken argument for racial reform, imposition of effective sanctions probably would slow many aspects of racial reform in South Africa by reducing the funds available for nonwhite education, housing and social spending. [redacted]

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Introduction

Pretoria has long faced economic sanctions intended to influence its internal racial policies and end its control of Namibia. In 1962, for example, the UN General Assembly accepted a resolution recommending extensive economic sanctions. In 1973, the Arab members of OPEC imposed an oil embargo against South Africa that remains officially in force, and a mandatory arms embargo resolution was passed by the UN General Assembly in 1977.* More recently, a new wave of racial unrest in South Africa that began last September, an apparent stalemate in resolving the Namibian independence issue, and the recent US imposition of economic sanctions against Nicaragua have triggered renewed calls for sanctions against South Africa. Sanction proposals have ranged from bans on landing rights for South African aircraft to the total cutoff of all foreign economic relations. [redacted]

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Bracing for Sanctions

In the past, Pretoria has responded to the threat of economic sanctions by pursuing import substitution, building strategic stockpiles, circumventing the limited sanctions imposed on imports of oil and military supplies, and avoiding heavy foreign borrowing.

-- In our judgment, Pretoria's program of import substitution has been

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geared to diversify South African industry, promote economic development, and create a largely self-contained system that could weather any import cutoff for as long as 3 or 4 years. Pretoria has employed a wide range of methods, including financing, constructing, and operating key industries, setting local content requirements, and applying tariff, quota, and licensing measures.

-- We estimate from South African data that between 1960 and 1979 Pretoria spent some $2 billion building and maintaining nonmilitary strategic stockpiles. Oil reserves--funded partly through fuel sales taxes--accounted for 80 to 90 percent of the cost, according to US Embassy reports. We do not have data on the size, composition, and quality of stockpiles of specific nonoil items. 25X1 [redacted] government stocks total about one year's consumption of spare parts and other items considered critical to industry and commerce, according to US Embassy sources.

-- South Africa has gained considerable expertise circumventing those limited sanctions that have already been applied, especially on imports of oil and arms. By paying premium prices, Pretoria has clandestinely obtained sufficient oil imports to meet normal needs and build its massive strategic reserves. [redacted] 25X1

-- In our judgment, Pretoria's "pay as you go" conservative debt management policies are motivated, in large part, by a desire to avoid accumulating heavy obligations that might offer foreign critics of its policies potential leverage. During times of depressed export earnings, Pretoria has generally clamped down on economic growth to slow consumer spending and imports, thereby protecting gold reserves and limiting foreign borrowing. As a result, we estimate that South Africa's ratio of debt service to export earnings is about 15 percent--low in comparison with most industrializing nations. [redacted] 25X1

Remaining Economic Vulnerabilities

Despite years of such policies to promote economic independence, we believe that South Africa is far from invulnerable to a total cutoff of foreign economic relations. In our judgment, reduced access to international financial markets and trade boycotts or selective embargoes on sales of capital equipment, machinery, oil, or other goods would eventually

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slow economic growth. Nonetheless, the impact of any sanctions obviously would depend on which countries apply the measures and the effectiveness with which they are enforced. [redacted] 25X1

Availability of Foreign Exchange

Export earnings play an important role in the South African economy, providing funds to buy vital inputs, especially oil, machinery and equipment (see table 1). Moreover, compared to most industrializing countries, South Africa has been fairly successful in financing its economic development from export revenues rather than relying heavily upon foreign investment and loans. Indeed, direct foreign investment into South Africa has accumulated at an average rate of only $1 billion annually since 1977--the equivalent of some 9 percent of gross domestic investment over the period, according to South African Government data. Based on our review of this data, we believe that periodic episodes of heavier foreign investment and borrowing have served principally either to fund major development projects or to cushion the impact of reduced export earnings at times when the gold price has declined unexpectedly (see table 2)*:

-- In the mid-1970s, state-run corporations undertook major infrastructural projects that required foreign funds, including port development and improvements, expansion of iron and steel plants, establishment of television service, and more rapid electrification.

-- By contrast, 1981 and 1982 were years of little new investment, but South African banks and the central government borrowed abroad to finance current account deficits totaling $7.5 billion. Gold prices had fallen from an average of $608 per ounce in 1980 to $460 in 1981 and $376 in 1982, according to IMF data. [redacted] 25X1

We believe that the economic downturn that began last August--combined with current account surpluses--will reduce the need for new foreign investment and borrowing until South Africa's next economic upswing begins. 25X1 [redacted] the primary investment opportunities in South Africa under current economic conditions are in improving the efficiency and productivity of existing plant and equipment rather than expanding capacity. In our judgment, the South African economy has ample financial resources to make these investments without new infusions of foreign capital. Moreover, the dominant source of direct foreign investment in recent years has been reinvested profits of foreign firms already operating in the country, not new infusions of money. [redacted] 25X1

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* Gold accounted for 48 percent of South African export earnings in 1984, according to government statistics. [redacted]

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<u>Financing Deficits</u>. In our view, widespread bans on new commercial loans to South Africa probably would have little immediate impact other than to reinforce already restrictive economic policies, including near record high interest rates and an austere government budget. We believe, based on its past practices, that Pretoria would continue to clamp down hard on economic growth to keep imports at depressed levels and accumulate foreign reserves that could pay for future imports. [redacted] 25X1

South Africa's relatively strong credit rating among international banks makes it unlikely that bans on new commercial loans by one or two creditor nations would seriously disrupt South Africa's ability to finance future current account deficits. [redacted] 25X1
25X1 [redacted] South Africa may have become slightly more vulnerable to limited bans on commercial loans; most of its debt now has a short maturity, and Pretoria has fewer gold and foreign currency reserves to pay off this debt quickly if need be:

-- The maturity of South Africa's foreign commercial debt has shifted from 38-percent short term debt in 1979 to 66 percent in 1984, according to Bank for International Settlements data. This trend means that a larger fraction of the debt must be paid off or reborrowed each year.

25X1 -- [redacted] Pretoria has tended to hold fewer foreign currency and gold reserves, and to rely more on borrowing to finance trade. As a result, foreign exchange and gold reserves are now sufficient to pay for less than 2 months of imports, compared with 5 months in 1980. [redacted] 25X1

Nonetheless, we believe [redacted] 25X1
25X1 [redacted] that a ban on new commercial loans by US banks would have little impact other than to shift South African borrowing to West European banks.* [redacted] 25X1
25X1 [redacted] South African bankers already are moving away from US banks to West German banks as a result of the current disinvestment movement in the United States. Only in the unlikely event that a sudden withdrawal of access to US credit markets coincided with an international loss in confidence in the South African economy--triggered, for example, by a sharp fall in gold prices--would we expect to see a US ban on loans to South

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* According to US Federal Reserve Bank data, South Africa owed $4.7 billion to US banks at the end of 1984, which represented about one-fifth of total South African debt. Moreover, we believe that more than one-third of South Africa's short-term debt is owed to US banks, based on recent trends in South African borrowing as reported in press accounts. [redacted] 25X1

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Africa seriously hurt the country's ability to finance current account deficits. [redacted]

25X1 Another economic sanction against South Africa that has been proposed is restrictions on IMF borrowing by Pretoria. According to US Embassy officials, South African Reserve Bank Governor Gerhard de Kock already has stated privately that Pretoria would avoid requesting funds from the IMF because South Africa can obtain all of the funds that it needs from Swiss and West German banks, and the lower cost of an IMF loan is not worth the "political hassles" involved. In the absence of a widespread and concurrent ban on commercial borrowing abroad, therefore, we believe that restrictions on IMF borrowing would have little practical effect. [redacted] 25X1

<u>Investment in Export Diversification</u>. Although we believe that a widespread ban on foreign investment would not significantly affect the South African economy in the short term, over the long haul such a ban probably would hurt prospects for diversifying exports and increasing black employment. According to South African Government economists, the country needs 5 to 6 percent real growth to generate enough new jobs to avert increasing black unemployment. We believe, however, based on a detailed study of the country's long-term economic prospects, that the average growth rate between 1985 and 1990 is unlikely to exceed 3 percent unless significant new exports are found.* Moreover, based on our earlier study, we believe that the prospects for expanding South Africa's traditional mining and agricultural exports are slim. Rapid expansion of nontraditional exports, especially finished consumer goods, probably would require substantial new foreign investment in order to obtain the needed funds, technical expertise, and ready markets. [redacted] 25X1

<u>Withdrawal of Foreign Companies</u>. We believe that forcing Western companies to sell existing operations in South Africa would not add substantially to the long-term effects of a ban on new investment. The divestment of these subsidiaries almost certainly would hurt current owners more than the South African economy, which would still retain the productive facilities.** On the other hand, a massive sell-off of foreign investments probably would temporarily disrupt normal financial transactions in the country; we believe that stock prices on the Johannesburg Stock Exchange would fall--but domestic interest rates rise--as South African companies scrambled to purchase foreign interests at bargain prices. [redacted] 25X1

[redacted] 25X1

** Cumulative direct foreign investment amounted to $17 billion at the end of 1983, according to South African Government data. [redacted] 25X1

[redacted] 25X1

Trade Boycotts. Boycotts of many of South Africa's exports would be difficult to enforce, in our judgment. In particular, gold, diamonds, and platinum sales would be hard to trace, given the undifferentiated character of these goods and their high value-to-weight ratio. Even if Western nations were willing to block South African harbors to prevent the export of such goods, they could easily be flown to overseas markets. [redacted] 25X1

Bans on sales of Krugerrand gold coins and other goods that could easily be traced to South Africa would tend to lower export earnings slightly and thus slow economic recovery.

-- Widespread bans on sales of Krugerrands almost certainly would lower the world price of gold, although the magnitude of this effect would be difficult to predict accurately. Sales of Krugerrands to the United States, for example, accounted for about 8 percent of total South African gold exports in 1984, according to press reports. If these sales were banned, we doubt that they would be replaced by an equivalent increase in purchases of other gold coins or bullion. Even a drop of only $10 per ounce in the gold price would cost South Africa $220 million per year [redacted] 25X1

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-- Loss of those profits currently earned by selling gold as Krugerrands rather than bullion would be minimal. In the case of a ban on sales to the US, we estimate that Pretoria would lose only about $5 million to $10 million per year in premiums above minting costs. [redacted] 25X1

Access to New Technologies and Skilled Personnel

Although direct foreign investment has been a relatively unimportant source of funds in recent years, foreign companies do facilitate the transfer of technology and skilled personnel to South Africa that would otherwise be available only on a more costly commercial basis. Except for underground mining, there are few machines, techniques or advanced developments that are uniquely South African. South African research efforts have focused on improving and adapting foreign processes to local conditions rather than on pure scientific research. Even in coal liquefaction, where South Africa is an acknowledged world leader, much of the technology that was used is foreign, coming largely from West European contractors. With the exception of uranium enrichment, no major technological breakthroughs can be ascribed to South African research and development, according to an academic study. South Africa devotes less than 1 percent of its GNP to research and development, compared to 2.5 percent in the West, according to press reports. [redacted] 25X1

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South Africa depends heavily on foreign management and training to run its economy. The country has good higher-level technical training for whites, but, in proportion to its entire population, the educational system does not produce as many graduates in scientific, managerial and technical fields as most Western countries, according to an academic study. The study notes that major breakdowns of machinery often must be repaired by foreign technicians. Moreover, contracts with foreign firms for technologically advanced plant and equipment often include requirements for training of local personnel in management and operation. 25X1

Despite these shortcomings, South Africa's limited research and development base and small skilled labor pool are not particularly large sources of vulnerability to bans on direct foreign investment, in our view. Most technologies can be purchased commercially, and skilled labor can be hired abroad as needed. According to US Embassy reporting, Japan has long banned direct foreign investment in South Africa, and yet South African-built models of Japanese cars, for example, increasingly dominate the domestic automobile market; the companies making these cars are South African-owned, and purchase technology and parts on a licensing basis. Other options for acquiring foreign technologies include franchise and contractural arrangements. 25X1

Facing Trade Embargoes

Capital Goods. We believe that if effective sanctions were imposed on South African imports of capital equipment, economic growth would eventually cease. Despite some 25 years of high-priority attention and substantial progress in selected industries, in our view, South Africa's import substitution drive has not freed the economy from heavy dependence on foreign capital equipment and machinery. Indeed, South Africa imports almost all of its capital equipment--with domestic industry essentially providing only the building in which it is housed, according to an academic study. Although facilities to produce a large variety of capital goods could be constructed and put into operation over a period of three or four years, there would be a sharp reduction in quantity and quality of products, and a considerable increase in production costs. The Rhodesian experience with sanctions suggests that although this sort of import substitution may initially raise economic growth rates, inefficiencies accumulate and lead in time to economic stagnation. 25X1

South Africa's failure to substitute for imports of capital equipment reflects the constraints imposed by a small domestic market and limited technological innovation, in our view. Because of this small market, South African companies lack the scale of operation enjoyed by high-volume foreign producers, forcing increased unit costs that must be offset by government subsidies or passed on as higher prices. In this situation, investors are reluctant to sink money into expansion.

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Based on an analysis of South African technological capabilities and existing plant and equipment, we believe that computers and other sophisticated electronic devices would prove difficult to replace in the event of a widespread and effective embargo on their sale to South Africa. Considerable progress has been made in import substitution in the electronics field, however, and South Africa's vulnerability in this area appears to us to be rapidly declining. Moreover, most of the vital components not produced in South Africa are small enough to be carried in by suitcase, which would make an effective embargo difficult, in our judgment. 25X1 [redacted]

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<u>Liquid Fuels</u>. [redacted] South African officials believe that their oil reserves are adequate to cover a 5 to 7 year embargo. We believe this to be true. [redacted] 25X1 25X1 [redacted] we estimate that South Africa has accumulated a strategic oil reserve of more than 230 million barrels of crude oil, which we believe would last more than three years under normal use and at least 6 years with moderate conservation measures and the construction of another coal-to-oil facility. [redacted] 25X1

Pretoria has devoted considerable attention to insulating itself from the impact of cutoffs in its oil imports. Although oil accounts for only about 20 percent of total energy needs, liquid fuels are vital for the South African transportation, agriculture, and petrochemicals industries, and we estimate that South Africa must import some 60 percent of its liquid fuel requirements. In addition to stockpiling efforts, the government has accelerated a drive toward energy self-sufficiency. Pretoria has reduced the growth in oil consumption through conservation, and boosted domestic energy production by pioneering the manufacture of oil from coal, building a nuclear power plant, and exploiting hydroelectric power. The drive for self-sufficiency also has included exploration for offshore oilfields and research and development of nonconventional energy sources, but these efforts have yet to produce commercially-viable amounts of energy. Although large off-shore deposits of natural gas have been discovered near Mossel Bay and off the coast of Namibia, prospects for significant oil finds appear nil [redacted] 25X1

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The best known example of South African energy import substitution probably is its three synthetic crude oil facilities, which use domestic coal reserves as feedstock to produce about 40 percent of South Africa's liquid fuel needs. The first coal-to-oil plant began operation in 1955, and has been expanded over the years to a capacity of about 14,000 barrels per day of gasoline, diesel fuel and heavy oil. The second and third plants started operation in 1980 and 1982, respectively, and each has a capacity of about 45,000 barrels per day of gasoline, diesel fuel, kerosene, liquefied petroleum gas, and several petrochemical products, according to an academic study. The government is considering funding a fourth coal-to-oil facility, but, pending further research, [redacted] 25X1 25X1 We believe that a fourth plant could be built in as little as two years, if needed, by using the same design as the second and third facilities, although without foreign participation construction time might be longer. Moreover, two private South African companies are considering building coal-to-oil facilities, according to US Embassy reports. [redacted] 25X1

Despite adequate overall liquid fuel, South Africa could face problems achieving the right product mix because the current coal-to-oil process produces insufficient diesel fuel to meet South African needs, according to press reports. Moreover, the diesel fuels produced from coal have caused operating problems in some engines, [redacted] We believe that Pretoria has placed a high priority on increasing the production of diesel fuel. South Africa has stated publicly that it may build a facility at Mossel Bay near Cape Town to convert off-shore natural gas deposits to diesel fuel. If the plant is approved this year, it may be operating by 1990, [redacted] In our judgment, the facility probably could be built without foreign participation, but at a higher cost. [redacted] 25X1

Other Key Imports. Aside from capital goods and oil, two other categories of South African imports are somewhat vulnerable to sanctions: vehicles and transport equipment, and chemicals and chemical products. Virtually all other imports could be dispensed with in the event of sanctions without causing undue hardships, according to an academic study. [redacted] 25X1

South Africa's vehicle and transport equipment industry appears fairly well positioned to weather an embargo, though at a substantial cost. Local content rules--although requiring 60 percent local content by weight--do not specify which parts of the vehicle are to be manufactured locally. As a result of different approaches taken by different manufacturers, virtually all of the components needed to produce automobiles, trucks and light-to-medium weight tractors are produced somewhere in South Africa, according to an academic study. Local production of aircraft engines and heavy weight tractors appears more problematic, according to the same study. [redacted] 25X1

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Despite advances towards self-sufficiency in the chemical and chemical products industry, many sophisticated catalysts and other compounds are used in insufficient quantities to justify local production, according to academic studies. We believe, however, that the South African Government probably has made provision for stockpiles of these key chemicals. Elsewhere in the industry, soda ash and some agricultural chemicals are important products not produced domestically. Soda ash is used in the manufacture of glass, in vanadium extraction, and in the production of detergents. According to press reports, South Africa has a sizable soda ash stockpile, and is planning to purchase its future requirements from Botswana. [redacted] 25X1

Ability to Retaliate

Pretoria potentially could retaliate for Western economic sanctions by damaging the economies of neighboring black states, suspending the remittances of foreign profits and dividends, reintroducing foreign exchange controls, or cutting mineral sales to the West. [redacted] 25X1

Holding Southern Africa Hostage

South African officials have been quick to point out that effective economic sanctions against South Africa inevitably would hurt neighboring states because of their close economic ties with South Africa.* Moreover, Pretoria has threatened publicly to retaliate for sanctions by reducing rail shipments to neighboring countries and employment of foreign workers. We believe that these threats are credible, and that Pretoria probably would retaliate for effective sanctions by imposing some costs on neighboring states. [redacted] 25X1

Transport Linkages. In our view, transport linkages are South Africa's greatest source of economic influence over its neighbors. Six of the region's 10 countries are landlocked and therefore dependent on the regional rail system to reach overseas markets. South Africa has 75 percent of the region's rail network and its most efficient ports, [redacted] 25X1 25X1 During the past few years, South Africa's transport system has handled a large proportion of foreign trade for Malawi, Zambia, Zaire and Zimbabwe because of the impact of insurgency and poor maintenance on Mozambican and

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Angolan railways, and the operating problems of the Tanzania-Zambia railway. Botswana, Lesotho and Swaziland consistently have depended on South Africa's railways and roads for the bulk of their external trade. For its part, South Africa generates only some $100 million from its regional rail and port services, and would not be substantially affected by selective, self-imposed embargoes. 25X1

If Pretoria chose to retaliate within the region for Western economic sanctions through, for example, an embargo of rail shipments from South Africa, we believe that the greatest impact would be on neighbors' oil supplies. Few alternatives exist. The Beira-Mutare pipeline supplying finished petroleum products to Zimbabwe traverses an area of heavy guerrilla activity in Mozambique, and has been sabotaged repeatedly. We estimate that the refinery at Ndola in Zambia's copper belt could produce petroleum products for much of the region, but without access to crude oil shipments through South Africa, feedstock would all have to be piped in at a high cost from the Tanzanian port of Dar es Salaam. Even if the Benguela railway through Angola were operable, Angolan crude is too heavy for use in the Ndola refinery, according to press reports. Moreover, no matter what arrangements were made, Pretoria could forestall shipments to Lesotho because of the need to cross South African territory. 25X1

Zambia and Zaire also would suffer economically from a South African rail embargo because they would be unable to maintain their current levels of mineral exports without the use of South African rail facilities. Zaire's combined rail-river system from Shaba to Matadi is already used to capacity, given low levels on rivers, and the Tanzania-Zambia railway has proved notoriously unreliable, according to press reports. Significant loss of mineral exports would cause serious hardships for these foreign-currency-strapped economies. 25X1

Employment. The presence of a substantial number of migrant workers from neighboring countries in South Africa gives Pretoria another possibility for retaliation. During 1984, official data show that the 195,000 foreign black workers employed in South African gold and coal mines remitted over $200 million to their countries of origin through savings programs run by the mining industry. In 1983, remittances by all 360,000 foreign workers legally employed in South Africa totaled almost $600 million, up from $400 million in 1980, according to an academic study. Most migrant workers, if forced from South Africa, would have little choice but to return to subsistence agriculture in their home countries. From Pretoria's perspective, high unemployment throughout southern Africa would by and large prevent any serious labor shortages if it sends back migrant workers from any single neighboring country, although the loss of semiskilled black miners from Lesotho probably would cause some initial hardships for South African mines. 25X1

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Blocking Capital Outflows

We believe that Pretoria probably would respond to widespread economic sanctions by imposing restrictions on capital outflows. South Africa has the potential to retaliate for sanctions and conserve foreign currency by blocking profit and dividend remittances, freezing repayments of principal and interest on foreign debt, or reintroducing foreign exchange controls that would penalize companies disposing of assets held in South Africa by using a disadvantageous exchange rate. The impact of such actions on any single country would be quite modest, with the exception of the United Kingdom, which would absorb the greatest financial loss relative to its GDP. Some 10 percent of British foreign investment is in South Africa, according to press reports. The impact clearly would be even more severe on individual companies and banks. 25X1

Mineral Sales

Exports of strategic minerals are important for South African economic growth, and we believe that Pretoria would resort to the minerals weapon only under extreme provocation. Moreover, several South African academics have noted that an embargo of South African mineral exports would prompt Western countries to seek substitute materials, and thus might lower long-run demand for the minerals. Nonetheless, South Africa is a major force in world mineral markets and could hurt Western economies by withholding its mineral wealth:

-- It accounts for more than 90 percent of non-Communist production of platinum group metals, about 60 percent of vanadium, one-half of chromium, and one-fourth of manganese, according to the US Bureau of Mines. Chromium, manganese and vanadium are important to steel production--particularly specialty steels for aircraft, missile, and defense-related industries--and the space program. The platinum-group metals are used in auto emission control systems and chemical, petrochemical and electrical industries.

-- South Africa is the world's third largest producer of uranium.

-- South African gold sales dominate the supply of the international gold market; output is more than double that of the USSR, the second-ranking producer.

A cutoff for several years of South African supplies almost certainly would cause shortages on world markets, push mineral prices up sharply, and force the West to increase its mineral imports from the Soviet Union. (25X1

Implications for Racial Reform

The West, including the United States, has limited but important influence in Pretoria. Recently, for example, we believe that the Botha government timed the announcement of several reforms--including the repeal of the ban on interracial marriages and relations--purposely to coincide with a major speech on South Africa by the US Secretary of State. On the other hand, while the timing of the Botha reform program may be bent to win US and other Western support, we believe that the content of the reform program is almost wholly tailored by Pretoria's own political and economic priorities. Moreover, the continued support of the majority of white South Africans for President Botha's policies is conditioned, in our view, upon the perception that he has control over the process of reform. We believe that the threat of economic sanctions has provided Botha with an unspoken argument for racial reform, but that he feels that he must not seen by white South Africa to be yielding to either internal or external pressures to speed the reform process. 25X1

We believe that sanctions that slow economic growth in South Africa will also tend to slow the implementation of those reforms that matter most to urban blacks, including higher wages, and better education, housing and social services. Following through with reforms planned for blacks and other nonwhites, will require substantial government expenditures. For example, according to data reported in the press, parity in education for all ethnic groups in South Africa would increase recurrent annual expenditures on education by some $4 billion per year, about 16 percent of total government expenditures. We believe that the fiscally-conservative South African Government is unlikely to maintain the same pace of reform with lower growth rates and reduced government revenues, especially if it means slashing white living standards. Under these conditions, the lives of South African blacks are unlikely to improve enough to avoid periodic flareups of black unrest during the remainder of this decade. 25X1

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Table 1. South African Imports and Exports by Commodity Groups, 1984

Commodity Group	Percent of Exports	Percent of Imports
Agricultural Products	5	5
Crude oil (net import)--a	0	15
Gold	48	0
Base metals and metal products	9	5
Gems and jewelry	10	1
Other Mineral Products	12	3
Chemicals and Chemical Products	3	8
Pulp, Paper and Paperboard	2	3
Textiles, Footwear, Millinery	3	5
Machinery	1	29
Vehicles and transport equipment	1	12
Opticals and other instruments	0	4
Miscellaneous--b	6	10
	100	100

a. Estimated.

b. Residual, probably most of which is arms sales and purchases.

Sources: South African Government data, except for oil and miscellaneous imports; data are for January to November.

Table 2. South African Balance of Payments, 1980-1985

Billion US $

	1980	1981	1982	1983	1984	1985--a
Current Account Balance	3.6	-4.6	-3.0	0.2	-0.7	1.0
Merchandise trade balance	-5.6	-9.8	-7.3	-5.1	-5.7	-4.0
Merchandise exports, f.o.b.	12.6	11.0	9.4	9.3	9.1	10.0
Merchandise imports, f.o.b.	18.2	20.8	16.6	14.4	14.8	14.0
Net gold output	13.0	9.6	8.0	8.9	8.1	8.0
Net services and transfers	-3.8	-4.3	-3.7	-3.6	-3.1	-3.0
Total reserves, yearend--b	7.7	4.3	4.0	4.1	3.1	
Long-term capital movements	-0.6	0.6	2.2	-0.4	1.9	
Change in liabilities related to reserves--c	0.0	2.1	0.3	1.0	0.4	
Other short-term capital movements--d	-2.3	0.7	0.3	0.1	-2.1	
Gold valuation adjustments and SDR allocations	1.3	-0.6	0.1	-0.4	0.9	
Changes in gross gold and other foreign reserves	1.9	-1.8	0.0	0.6	0.2	

a. Estimated assuming average gold price of $345 per ounce.

b. Total reserves are not the sum of changes in reserves and the previous year's total reserves because of year-to-year changes in exchange rates.

c. Liabilities related to reserves are short-term foreign liabilities of the South African Reserve Bank and short-term foreign obligations of commercial banks.

d. Includes errors and omissions and supplier credits.

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